

CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE

AUDIT OFFICE



2ND DISTRICT AGRICULTURAL ASSOCIATION  
SAN JOAQUIN FAIR  
STOCKTON, CALIFORNIA

INDEPENDENT AUDITOR'S REPORT  
AND FINANCIAL STATEMENTS

AUDIT REPORT #08-002  
FOR THE YEARS ENDED  
DECEMBER 31, 2007 AND 2006

2ND DISTRICT AGRICULTURAL ASSOCIATION  
SAN JOAQUIN FAIR  
STOCKTON, CALIFORNIA

INDEPENDENT AUDITOR'S REPORT  
AND FINANCIAL STATEMENTS

FOR THE YEARS ENDED  
DECEMBER 31, 2007 AND 2006

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AUDIT STAFF

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AUDIT REPORT NUMBER

#08-002

2ND DISTRICT AGRICULTURAL ASSOCIATION  
SAN JOAQUIN FAIR  
STOCKTON, CALIFORNIA

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CALIFORNIA DEPARTMENT OF  
FOOD & AGRICULTURE

A. G. Kawamura, Secretary

Mr. Mitch Slater, President  
Board of Directors  
2nd DAA, San Joaquin Fair  
1658 S. Airport Way  
Stockton, California 95206

### INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying statements of financial condition of the 2nd District Agricultural Association (DAA), San Joaquin Fair, Stockton, California, as of December 31, 2007 and 2006, and the related statements of operations and changes in accountability, and cash flows-regulatory basis for the years then ended. These financial statements are the responsibility of the 2nd DAA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

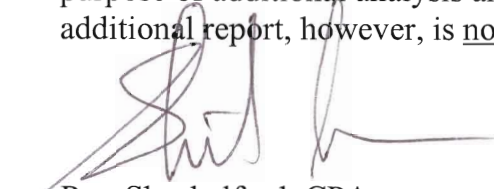
We have conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the 2nd DAA, San Joaquin Fair, as of December 31, 2007 and 2006, and the results of its operations and changes in accountability, and cash flows-regulatory basis for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The 2nd DAA, San Joaquin Fair, has not presented the Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.



Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Management Report #08-002, on the 2nd DAA's compliance with State laws and regulations and system of internal accounting control, is issued solely for the purpose of additional analysis and should be addressed by the 2nd DAA as appropriate. This additional report, however, is not a required part of the basic financial statements.

A handwritten signature in dark ink, appearing to read 'Ron Shackelford', is written over the text of the paragraph.

Ron Shackelford, CPA  
Chief, Audit Office

November 17, 2008

**2ND DISTRICT AGRICULTURAL ASSOCIATION  
SAN JOAQUIN FAIR  
STOCKTON, CALIFORNIA**

**STATEMENTS OF FINANCIAL CONDITION  
December 31, 2007 and 2006**

	<b>Account Number</b>	<b>2007</b>	<b>2006</b>
<b>ASSETS</b>			
Cash and Cash Equivalents	111-118	\$ 358,273	\$ 377,149
SWF Equipment Replacement	121	238,371	225,165
Accounts Receivable, Net	131	89,179	47,463
Land	191	248,846	248,846
Buildings and Improvements, Net	192	4,370,038	4,575,688
Equipment, Net	193	11,812	17,600
<b>TOTAL ASSETS</b>		<b><u>5,316,519</u></b>	<b><u>5,491,911</u></b>
<b>LIABILITIES AND NET RESOURCES</b>			
<b>Liabilities</b>			
Accounts Payable and Other Liabilities	211-213, 221-227	46,042	57,461
Deferred Income	228	20,000	10,000
Guaranteed Deposits	241	12,725	16,800
Compensated Absences Liability	245	167,578	175,194
<b>Total Liabilities</b>		<b><u>246,345</u></b>	<b><u>259,455</u></b>
<b>Net Resources</b>			
Reserve for Junior Livestock Auction	251	48,483	24,786
Net Resources - Operations	291	390,995	365,535
Net Resources - Capital Assets	291.1	4,630,696	4,842,134
<b>Total Net Resources Available</b>		<b><u>5,070,174</u></b>	<b><u>5,232,455</u></b>
<b>TOTAL LIABILITIES AND NET RESOURCES</b>		<b><u>\$ 5,316,519</u></b>	<b><u>\$ 5,491,911</u></b>

**2ND DISTRICT AGRICULTURAL ASSOCIATION  
SAN JOAQUIN FAIR  
STOCKTON, CALIFORNIA**

**STATEMENTS OF OPERATIONS/CHANGES IN ACCOUNTABILITY  
December 31, 2007 and 2006**

	<b>Account Number</b>	<b>2007</b>	<b>2006</b>
<b>REVENUE</b>			
State Apportionments	312	\$ 40,000	\$ 40,000
Other F& E Allocation	319	168,195	137,500
Donated Assets	340	5,623	-
Admissions	410	389,669	421,740
Commercial Space	415	49,325	54,219
Carnival	421	317,081	314,687
Food Concessions	422	184,422	182,874
Exhibits	430	44,298	48,271
Horse Racing	450	1,454,702	1,095,030
Satellite Wagering	45005	1,020,244	1,031,729
Miscellaneous Fair	470	220,401	239,149
JLA - Revenue	476	34,377	58,473
Interim Revenue	480	483,144	658,334
Prior Year Revenue	490	88,916	65,246
Non-Fair Revenue	495	18,359	20,615
<b>Total Revenue</b>		<b><u>4,518,756</u></b>	<b><u>4,367,867</u></b>
<b>EXPENSES</b>			
Administration	500	493,528	511,597
Maintenance and Operations	520/530	1,036,656	1,013,633
Publicity	540	179,518	175,297
Attendance	560	203,075	193,921
Miscellaneous Fair & Non-Fair	570	9,926	8,639
JLA Expense	576	10,679	77,805
Premiums	580	45,003	53,620
Exhibits	630	167,839	203,836
Horse Racing	650	667,972	617,499
Satellite Wagering	65005	803,992	792,872
Attractions - Fairtime & Non-Fairtime	660	622,837	601,237
Non-Capitalized Expenditures	723	-	2,000
Prior Year Adjustments	800	51,878	19,658
Cash Over/Short	850	505	3,099
Depreciation Expense	900	293,953	305,069
Other Operating Expense	940	93,676	7,485
<b>Total Expenses</b>		<b><u>4,681,037</u></b>	<b><u>4,587,267</u></b>
<b>RESOURCES</b>			
Net Change - Income / (Loss)		(162,281)	(219,401)
Resources Available, January 1		5,232,455	5,451,856
<b>Resources Available, December 31</b>		<b><u>\$ 5,070,174</u></b>	<b><u>\$ 5,232,455</u></b>

**2ND DISTRICT AGRICULTURAL ASSOCIATION  
SAN JOAQUIN COUNTY FAIR  
STOCKTON, CALIFORNIA**

**STATEMENTS OF CASH FLOWS - REGULATORY BASIS  
December 31, 2007 and 2006**

	<u><b>2007</b></u>	<u><b>2006</b></u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Excess of Revenue Over Expenses (Expenses Over Revenue)	\$ (162,281)	\$ (219,401)
Adjustment to Reconcile Excess of Revenue Over Expenses to Net Cash Provided by Operating Activities:		
(Increase) Decrease in Accounts Receivable	(41,716)	59,862
(Increase) Decrease in Equipment Replacement	(13,206)	(15,370)
Increase (Decrease) in Deferred Income	10,000	10,000
Increase (Decrease) in Accounts Payable & Other Liabilities	(11,420)	16,648
Increase (Decrease) in Compensated Absence Liability	(7,616)	(12,551)
Increase (Decrease) in Guarantee Deposits	(4,075)	(1,100)
Total Adjustments	<u>(68,033)</u>	<u>57,487</u>
<b>Net Cash Provided (Used) by Operating Activities</b>	<u><b>(230,314)</b></u>	<u><b>(161,913)</b></u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
(Increase) Decrease in Buildings & Improvements	205,650	154,009
(Increase) Decrease in Equipmen	<u>5,788</u>	<u>21,045</u>
<b>Net Cash Provided (Used) by Investing Activities</b>	<u><b>211,438</b></u>	<u><b>175,054</b></u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Increase (Decrease) in Long-Term Liability	<u>-</u>	<u>-</u>
<b>Net Cash Provided (Used) by Financing Activities</b>	<u><b>-</b></u>	<u><b>-</b></u>
<b>NET INCREASE (DECREASE) IN CASH</b>	<b>(18,876)</b>	<b>13,141</b>
Cash at Beginning of Year	377,149	364,008
<b>CASH AT END OF YEAR</b>	<u><u><b>\$ 358,273</b></u></u>	<u><u><b>\$ 377,149</b></u></u>



**2ND DISTRICT AGRICULTURAL ASSOCIATION  
SAN JOAQUIN FAIR  
STOCKTON, CALIFORNIA**

**NOTES TO THE FINANCIAL STATEMENTS**

December 31, 2007 and 2006

**NOTE 1      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Organization - The 2nd District Agricultural Association (DAA) was formed on May 1922, for the purpose of sponsoring, managing, and conducting the San Joaquin County Fair each year in Stockton, California. The State of California, Department of Food and Agriculture, through the Division of Fairs and Expositions provides oversight responsibilities to the DAA. The DAA is subject to the policies, procedures, and regulations set forth in the California Government Code, California Business and Professions Code, Public Contracts Code, Food and Agricultural Code, State Administrative Manual, and the Accounting Procedures Manual established by the Division of Fairs and Expositions.

The State of California allocates funds annually to the DAA's to support operations and acquire fixed assets. However, the level of State funding varies from year to year based on budgetary constraints. The Division of Fairs and Expositions determines the amount of the allocations.

Basis of Accounting - The accounting policies applied to and procedures used by the DAA conform to accounting principles applicable to District Agricultural Associations as prescribed by the State Administrative Manual and the Accounting Procedures Manual. The DAA's activities are accounted for as an enterprise fund. The Governmental Accounting Standards Board defines an enterprise fund as a fund related to an organization financed and operated in a manner similar to a private business enterprise where the intent is to recover the costs of providing goods or services to the general public primarily through user charges.

The DAA's financial activities are accounted for using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP) as promulgated by the Governmental Accounting Standards Board. Thus, revenues are reported in the year earned rather than collected, and expenses are reported in the year incurred rather than paid.

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the

reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes – The DAA is a state agency and therefore, is exempt from paying taxes on its income.

Cash and Cash Equivalents - The DAA's cash and cash equivalents are separately held in various local banks. The Financial Accounting Standards Board defines cash equivalents as short-term, highly liquid investments that are both: (1) readily convertible to known amounts of cash; and (2) so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. The cost of all cash equivalents of the DAA approximates market value.

The California State Treasury makes available the Local Agency Investment Fund (LAIF) through which local governments may pool investments. Each governmental entity may invest up to \$40,000,000 in the fund. Investments in the LAIF are highly liquid, as deposits can be converted to cash within 24 hours without loss of interest.

In accordance with the Accounting Procedures Manual, the DAA is authorized to deposit funds in certificates of deposit and interest bearing accounts. However, Government Code Sections 16521 and 16611 require the bank or savings and loan association to deposit, with the State Treasurer, securities valued at 110 percent of the uninsured portion of the funds deposited with the financial institution. Government Code Sections 16520 and 16610 provide that security need not be required for that portion of any deposit insured under any law of the United States, such as FDIC and FSLIC.

Property and Equipment - Construction-in-progress, land, buildings and improvements, and equipment are acquired with operating funds and funds allocated by the State. Any acquired assets, if greater than \$5,000 and a useful life of one or more years, are capitalized and depreciated. Buildings and improvements are depreciated over a period of 30 years, and purchases of equipment are depreciated over five years. Amounts spent on repair and maintenance costs are expensed as incurred by the Fair. Furthermore, donated building improvements, and equipment are recorded at their fair market value at the date of the gift. This recorded basis is depreciated over the useful lives identified above. Amounts spent on projects that have not been placed in service are recorded in Account #190, Construction-in-Progress and no depreciation is recorded on Construction-in-Progress until the project is completed and the asset is placed in service.

Sales Taxes – The State of California imposes a sales tax of 8.0% on all of the DAA's sales of merchandise. The DAA collects that sales tax from customers and remits the entire amount to the state Board of Equalization. The DAA's

accounting policy is to exclude the tax collected and remitted to the State from revenues and cost of sales.

Compensated Absences - Pursuant to Statement No. 16 of the Governmental Accounting Standards Board, State and local governmental entities are required to report the liability for compensated absences. Compensated absences are absences for which permanent employees will be paid, such as vacation, personal leave, and compensatory time off. The compensated absences liability is calculated based on the pay rates in effect at the balance sheet date.

**NOTE 2      CASH AND CASH EQUIVALENTS**

The following list of cash and cash equivalents were held by the DAA as of December 31:

	<u>2007</u>	<u>2006</u>
Petty Cash & Change Funds	\$ 600	\$ 600
Cash in Bank – Operating	(90,525)	30,956
Cash in Bank – Payroll	2,357	2,206
Cash in Bank – JLA	48,482	29,863
Cash in Bank – Time Deposits	<u>397,359</u>	<u>313,524</u>
Total Cash and Cash Equivalents	<u>\$ 358,273</u>	<u>\$ 377,149</u>

**NOTE 3      ACCOUNTS RECEIVABLE**

The DAA is required to record an allowance for doubtful accounts based on estimates of collectibility.

	<u>2007</u>	<u>2006</u>
Accounts Receivable - Trade	\$ 93,843	\$ 52,127
Allowance for Doubtful Accounts	<u>(4,664)</u>	<u>(4,664)</u>
Accounts Receivable - Net	<u>\$ 89,179</u>	<u>\$ 47,463</u>

**NOTE 4      PROPERTY AND EQUIPMENT**

Buildings and improvements, and equipment at December 31, 2007 and 2006 consist of the following:

	<u>2007</u>	<u>2006</u>
Building & Improvements	\$ 11,194,145	\$ 11,113,069
Less: Accumulated Depreciation	<u>(6,824,107)</u>	<u>(6,537,381)</u>
Building & Improvements - Net	<u>\$ 4,370,038</u>	<u>\$ 4,575,688</u>

Equipment	\$ 520,764	\$ 515,141
Less: Accumulated Depreciation	<u>(508,952)</u>	<u>(497,541)</u>
Equipment – Net	<u>\$ 11,812</u>	<u>\$ 17,600</u>

**NOTE 5      SWF EQUIPMENT REPLACEMENT FUND**

The Fair participated in the Equipment Replacement Fund with the California Authority of Racing Fairs (CARF). As part of its participation in the Equipment Replacement Fund, the Fair has deposited funds with CARF to cover the future cost of equipment replacement for its satellite wagering facility. As of December 31, 2007, the Fair has a total balance of \$238,371, which comprised both the amount deposited and interest earned.

**NOTE 6      RETIREMENT PLAN**

Permanent employees of the DAA are members of the Public Employees' Retirement System (PERS), which is a defined benefit contributory retirement plan. The retirement contributions made by the DAA and its employees are actuarially determined. Contributions plus earnings of the Retirement System will provide the necessary funds to pay retirement costs when accrued. The DAA's share of retirement contributions is included in the cost of administration. For further information, please refer to the annual single audit of the State of California.

Retirement benefits fully vest after five years of credited service for Tier I employees. Retirement benefits fully vest after ten years of credited service for Tier II employees. Upon separation from State employment, members' accumulated contributions are refundable with interest credited through the date of separation. The DAA, however, does not accrue the liability associated with vested benefits.

The Alternate Retirement Program (ARP) is a retirement savings program that certain employees hired on or after August 11, 2004 are automatically enrolled in for their first two years of employment with the State of California. ARP is administered by the Savings Plus Program with the Department of Personnel Administration and invests funds in a fixed-income fund. ARP provides two years of retirement savings (five percent of paycheck amount each month) in lieu of two years of service credit. At the end of the two-year period, the deductions are placed in CalPERS and the retirement service credit begins.

Temporary, 119-day, employees of the DAA participate in the Part-Time, Seasonal, Temporary (PST) Retirement Plan. The PST Retirement Plan is a mandatory deferred compensation plan under which 7.5% of the employee's gross salary is deducted before taxes are calculated. These pre-tax dollars are placed in a guaranteed savings program. The employee has the option of leaving these funds on deposit upon separation, or requesting a refund.

NOTE 7      **INCOME TAXES**

The 2nd DAA is a State agency and therefore, is exempt from paying taxes on its income.

**2ND DISTRICT AGRICULTURAL ASSOCIATION  
SAN JOAQUIN FAIR  
STOCKTON, CALIFORNIA**

**REPORT DISTRIBUTION**

<b><u>Number</u></b>	<b><u>Recipient</u></b>
1	President, 2nd DAA Board of Directors
1	Chief Executive Officer, 2nd DAA
1	Director, Division of Fairs and Expositions
1	Chief Counsel, CDFA Legal Office
1	Chief, CDFA Audit Office

CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE

AUDIT OFFICE



2ND DISTRICT AGRICULTURAL ASSOCIATION  
SAN JOAQUIN FAIR  
STOCKTON, CALIFORNIA

MANAGEMENT REPORT #08-002

YEAR ENDED DECEMBER 31, 2007

2ND DISTRICT AGRICULTURAL ASSOCIATION  
SAN JOAQUIN FAIR  
STOCKTON, CALIFORNIA

MANAGEMENT REPORT  
YEAR ENDED DECEMBER 31, 2007

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AUDIT STAFF

Ron Shackelford, CPA  
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Audit Chief  
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MANAGEMENT REPORT NUMBER  
#08-002



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CALIFORNIA DEPARTMENT OF  
FOOD & AGRICULTURE

A. G. Kawamura, Secretary

Mr. Mitch Slater, President  
Board of Directors  
2nd DAA, San Joaquin Fair  
1658 S. Airport Way  
Stockton, California 95206

In planning and performing our audit of the financial statements of the 2nd District Agricultural Association (DAA), San Joaquin Fair, Stockton, California, for the year ended December 31, 2007, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure. However, we noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

In addition, this Management Report includes: (1) matters other than those related to the internal control structure which came to our attention that could, in our judgment, either individually or in the aggregate, have a significant effect on the entity's financial reporting process (e.g., accounting errors, significant audit adjustments, etc.), and (2) areas of non-compliance by the San Joaquin Fair with respect to State laws and regulations, with the Accounting Procedures Manual, and with established policies and procedures.

In accordance with Government Code Section 13402, Fair managers and Board of Directors are responsible for the establishment and maintenance of a system or systems of internal accounting and administrative control within their agencies. This responsibility includes documenting the system, communicating system requirements to employees, and assuring that the system is functioning as prescribed and is modified, as appropriate, for changes in conditions.

Due to the small size of the 2nd DAA's office staff, it is not practical to have the degree of segregation of duties possible in a larger organization. Therefore, the Board of Directors must consider this when determining the extent that the Board becomes involved in operations to adequately safeguard the 2nd DAA's assets. The system of internal control should provide the Board of Directors and management reasonable, but not absolute, assurance that: (1) only authorized transactions are executed; (2) transactions are properly recorded in the accounting records; and (3) material errors and irregularities that may occur, will be detected by the 2nd DAA in a timely manner during the normal course of operations.



In this regard, it is particularly important that the Board review and approve significant transactions and critically review monthly financial information. The 2nd DAA's minimum staffing was one factor considered in determining the nature, timing, and extent of the tests to be performed on the 2nd DAA's accounting procedures, records, and substantiating documents.

During our audit of the internal control structure of the 2nd DAA and compliance with state laws and regulations, we identified four areas with reportable conditions that are considered weaknesses in the Fair's operations: accounting for fixed assets, standard contracts, personnel, and courtesy pass admissions. We have provided eight recommendations to improve the operations of the Fair. The Fair must respond in writing on how these recommendations will be implemented.

We also identified additional areas containing non-reportable conditions. These conditions and accompanying recommendations are not considered significant weaknesses. We have included these items solely for the benefit of the 2nd DAA's management. We suggest the Fair implement the recommendations as soon as practicable. The Fair, however, is not required to provide written responses to the recommendations for non-reportable conditions.

## REPORTABLE CONDITIONS

### ACCOUNTING FOR FIXED ASSETS

The Fair capitalized items that failed to meet the state capitalization criteria, as well as costs related to maintenance and repair rather than capital expenditures, thereby overstating Account #192, Buildings and Improvements, and the related accumulated depreciation and depreciation expense at year-end 2007. Costs totaling \$93,676 were capitalized and began depreciation in 2007, when the entire amounts should have been expensed in the year incurred. Assets having a value of \$5,000 or more and a useful life of at least one year should be capitalized, according to the capitalization criteria established by the Department of Finance (DOF); however, two items cost less than \$5,000, and a third was related to a painting project, which, according to generally accepted accounting principles (GAAP), is categorized as maintenance and repair. A painting project is classified as maintenance and repair cost rather a capital asset because it is not an identifiable improvement to the structure of an existing asset, but rather a cost incurred to bring the existing asset back to an earlier condition or to keep it functioning at its present condition. Although the cost of the paint project at \$87,280 well exceeded the DOF minimum capitalization amount and the paint is likely to last in excess of a year, GAAP standards dictate that maintenance and repair costs be expensed in the year they are incurred. Therefore, the entire amount of the paint project, as well as the items that were under \$5,000, should have been expensed rather than capitalized in 2007 and should be removed from the Fair's property ledger.

Additionally, the Fair did not capitalize an animal scale purchased in 2006 for \$5,663, which does meet the DOF capitalization criteria. As a result, the Fair understated Account #193, Equipment, the related accumulated depreciation, and depreciation expense at year-end 2007. Also, depreciation was further misstated due to a portion of expense that should have been allocated to a prior year being recognized in the current year.

#### *Recommendations*

- 1. The Fair should remove the items that do not meet the capitalization criteria from its property ledger. Going forward, rather than capitalizing items that do not meet the criteria, the Fair should expense the full amounts related to items purchased for less than \$5,000 or paid for maintenance and repair in the year the expenses were incurred.*
- 2. The Fair should ensure it is capitalizing all assets that fit the criteria. Per the DOF guidelines, the animal scale, which cost greater than \$5,000 and will be used in operations for greater than one year, should be added to the Fair's equipment property ledger and depreciated over a period of five years.*
- 3. To account for the adjustments noted above, the Fair should adjust its accumulated depreciation and prior year depreciation accounts accordingly.*

## STANDARD CONTRACTS

An examination of the Fair's standard contracts revealed the following conditions:

- a. During 2007, the Fair did not issue the Internal Revenue Service (IRS) Form 1099, Miscellaneous Income, to an independent contractor who performed services for the Fair and was paid in excess of \$600. This was a prior year audit finding. Additionally, an IRS Form 1099 was issued for \$10,000 less than the amount paid to the contractor.
- b. Two contractors were paid in excess of the agreed-upon contract amounts without an amendment to the contract or approval from Fairs & Expositions (F&E) for exceeding the original agreed-upon rates. The contracts, specifically written to not exceed \$9,900 and \$5,000, surpassed those amounts by \$23,363 and \$9,679, respectively.
- c. A contractor who performed admissions duties was put on payroll and issued both a Form 1099 and a Form W-2, Wage and Tax Statement. No contract existed to support why a Form 1099 was issued if the individual was considered to be on payroll. The fact that the individual was treated as both an independent contractor and an employee without full documentation existing for either particular category raises the question as to whether the proper consideration of the independent contractor/employee status determination occurred.

### *Recommendations*

4. *The Fair should ensure it issues accurate Form 1099s for all of its independent contractors who are paid in excess of \$600 and are not exempt from the reporting requirements.*
5. *When the Fair determines it necessary to pay additional amounts to its independent contractors, it should amend the existing contract to reflect the new amounts and new services that have been agreed upon. F&E approval should be obtained in cases where the services had required bids to secure the original contract.*
6. *The Fair should ensure it adequately performs the independent contractor/employee status determination for all of its independent contractors. Complete paperwork that supports the classification should be present regardless of whether the individual is determined to be an independent contractor or an employee.*

## PERSONNEL

Four employees who worked in excess of the 1000 hours limitation during fiscal year 2006/2007 were not enrolled into Public Employees' Retirement System (PERS) in a timely manner. Per Government Code Section 20305, if an individual who is employed on an other than per diem basis works "1,000 hours within the fiscal year...membership shall be effective not later than the first day of the first pay period of the month following the month in which...1,000 hours of service were completed."

*Recommendation*

7. *The Fair should comply with Government Code Section 20305 and enroll individuals who have worked at least 1,000 hours into PERS, effective the first day of the pay period of the following month.*

**COURTESY PASS ADMISSIONS**

The Fair exceeded the maximum allowable rate for courtesy pass admissions. According to the California Food and Agricultural Code, Section 3026, "The percentage of courtesy pass admissions to any state, county, district, or citrus fruit fair shall not exceed 4% of the gross paid admission to the fair in the preceding calendar year." In 2007, courtesy passes for the San Joaquin Fair were 5.1% of the preceding year's gross paid admissions, above the 4% limitation.

*Recommendation*

8. *The Fair should review and improve its policy for the issuance of courtesy passes to ensure the 4% limitation specified within the Food and Agriculture Code is not exceeded.*

## NON -REPORTABLE CONDITIONS

### JUNIOR LIVESTOCK AUCTION

An examination of the Fair's accounting for Junior Livestock Auction (JLA) activities revealed the following conditions:

- a. The Fair did not properly account for its JLA activities. The JLA revenue and expenditure accounts were not properly closed into Account #251, JLA Reserve. The Fair made direct entries into its Account #251, JLA Reserve, to balance its cash account rather than recognizing the revenues and expenditures from its JLA activities appropriately. As a result, there was no clear audit trail to determine whether the Fair recognized all revenue and expenditures related to its JLA activities for 2007.
- b. The Fair did not recognize all of its revenue related to the reserve commission retained from the auction. The Fair retains a 7% commission on its auction; however, the revenues that should have been recognized that related to this amount were not recorded in the Fair's general ledger.
- c. The general ledger amounts for Accounts #476, JLA Revenues, and #576, JLA Expenses, did not reconcile to the amounts reported by the Fair on its 2007 Statement of Operations (STOP). Because the Fair made direct entries during the year into its Account #251, JLA Reserve, to adjust its cash account based on bank reconciliations, the Fair did not adequately account for its revenues and expenditures. Consequently, when attempting to perform a roll-forward of Account #251 from the January 1, 2007 balance to the December 31, 2007 balance, Account #251 already showed the Fair's desired reserve balance at year-end, prior to closing its revenues and expenditures. This became an issue when trying to reconcile to a general ledger that showed a net effect of \$1 when the reserve account showed an increase of \$18,625. The Fair included a revenue amount for \$37,272 and an expenditure amount for \$18,647 on the STOP which were not recorded in the general ledger under the #476 or #576 Accounts.

The above were all prior audit year findings.

### *Recommendation*

*The Fair should ensure a clear audit trail exists for JLA activities by following the Accounting Procedures Manual (APM) Section II, 5.1 – 5.33 regarding the accounting for JLA, so as to provide a greater transparency of the net effect of annual activities, revenue and expenses, to the JLA Net Resource Account. Additionally, the Fair should recognize the full amount of commission revenue and auction expenses when accounting for its JLA activities. Also, the Fair should ensure it is reporting the correct amounts for its JLA activities on the annual STOP. Reporting should agree to the general ledger and include the full amount of revenue and expense from JLA activities that occurred during the year.*

**ACCOUNTS PAYABLE**

An examination of accounts payable revealed that the Fair did not accrue liabilities of \$9,286 at year-end relating to 2007 expenses that were subsequently paid in 2008. The accrual basis of accounting requires the recognition of expenses within the period incurred. If expenses have been incurred, but not yet invoiced, an effort should be made to reasonably estimate and accrue the liability for the amount owed. This should be done prior to closing the accounting records and preparing the annual STOP. This was a prior year audit finding.

*Recommendation*

*Accounts payable at year-end should include all known payables, including estimates of unbilled monthly expenses, even though billings have not yet been received.*

**ACCOUNTS RECEIVABLE**

The Fair did not establish receivables for \$12,236 related to 2007 revenues for which payments were outstanding at year-end and subsequently received in 2008. The accrual basis of accounting requires the recognition of revenue within the period incurred. If revenues have been earned, but not yet received, an effort should be made to reasonably estimate and accrue the revenue for the amount to be received. This should be done prior to closing the accounting records and preparing the annual STOP.

*Recommendation*

*The Fair should ensure it is adequately recognizing all of its revenues in the period in which they were earned by establishing a receivable for the amounts still outstanding at year-end.*

**TEMPORARY EMPLOYEES**

The Fair allowed four employees to work in excess of the 119-day limitation within a calendar year. According to the APM, Section III, 4.34, "by law temporary employees may not work more than 119 days in a calendar year." The APM further cites Article VII, Section 4(1) of the Constitution for the State of California as its basis for this policy. These employees worked between 120 and 203 days during 2007.

*Recommendation*

*The Fair should ensure it is tracking its temporary employees and not allowing them to work in excess of the 119-day limitation determined by F&E on the basis established under the California Constitution.*

**CASH DEPOSITS**

The Fair cashed payroll and entertainers' checks from its cash receipts instead of ensuring the entire amounts were deposited intact as required by State Administrative Manual (SAM) Section 8032.4. The Fair weakens its internal controls over cash and opens itself up to loss



when it permits checks to be cashed from the receipts rather than ensuring entire amounts are deposited as required.

*Recommendation*

*The Fair should comply with SAM Section 8032.4 by ensuring all deposits remain intact and refraining from cashing checks from its cash receipts.*

**DISTRICT AGRICULTURAL ASSOCIATION'S RESPONSE**



March 12, 2009

Ron Shackelford, Chief  
Audit Office  
Department of Food and Agriculture  
1220 N Street, Room 344  
Sacramento, CA 95814

Dear Mr. Shackelford:

This letter is the 2<sup>nd</sup> District Agricultural Association's response to Management Report # 08-002, for the year ended December 2007. We are responding in the same order as the report, referencing your recommendation numbers.

### **ACCOUNTING FOR FIXED ASSETS**

The Fair has made all adjustments recommended to correct the mis-stated capitalization effective 12-31-08. In the future the Fair will review the capitalization criteria and seek advisement in a case such as this.

### **STANDARD CONTRACTS**

The Fair will ensure it issues accurate Form 1099's for all independent contractors who are paid in excess of \$600 and are not exempt from the reporting requirements.

The Fair will ensure that when it is necessary to pay additional amounts to its independent contractors the contract will be amended to reflect the change.

The Fair will ensure it adequately performs the independent contractor/employee status determination for all independent contractors.

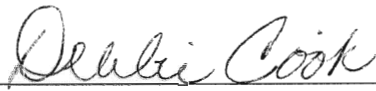
## PERSONNEL

The Fair will comply with Government Code Section 20305 and enroll individuals who have worked at least 1,000 hours into the Alternative Retirement Program, effective the first day of the pay period of the following month.


## COURTESY PASS ADMISSION

The Fair will review and improve its policy for the issuance of courtesy passes to ensure the 4% limitation specified within the Food and Agriculture Code is not exceeded.

Thank you for the opportunity to respond to this audit. If you require further information or clarification, please contact us.



Debbie Cook  
Chief Executive Officer



Mitch Slater  
President, Board of Directors

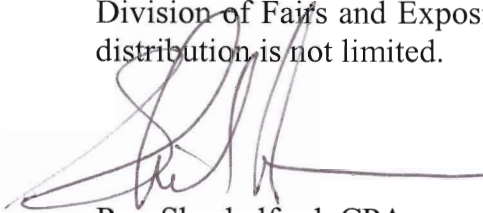
**CDFA EVALUATION OF RESPONSE**

A draft copy of this report was forwarded to the management of the 2nd DAA, San Joaquin Fair for its review and response. We have reviewed the response and it addresses the findings contained in this report.

### DISPOSITION OF AUDIT RESULTS

The findings in this management report are based on fieldwork that my staff performed between November 3, 2008 and November 17, 2008. My staff met with management on November 17, 2008 to discuss the findings and recommendations, as well as other issues.

This report is intended for the information of the Board of Directors, management, and the Division of Fairs and Expositions. However, this report is a matter of public record and its distribution is not limited.



For Ron Shackelford, CPA  
Chief, Audit Office

November 17, 2008

**REPORT DISTRIBUTION**

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1	President, 2nd DAA Board of Directors
1	Chief Executive Officer, 2nd DAA
1	Director, Division of Fairs and Expositions
1	Chief Counsel, CDFA Legal Office
1	Chief, CDFA Audit Office